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United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Resumed eighteenth session
Vienna, November 1997
Item 4 (d) of the provisional agenda

Programme and Budget Committee

Thirteenth session
Vienna, 8-11 September 1997
Item 10 of the provisional agenda

FINANCIAL REGULATIONS AND FINANCIAL RULES

Amendments to the financial rules

Report by the Director-General

1. Pursuant to financial regulation 12.1, the Financial Rules of UNIDO were issued as set out in Director-General's bulletin UNIDO/DG/B.74/Rev.1.

2. The present document reports on amendments to three financial rules to align those rules with actual accounting and financial reporting practice, and to comply with the recommendation of the External Auditor in respect thereof.

3. The financial rules amended are 104.3, 109.6(b) and 110.7(b) and relate to certain financial obligations and commitments and the accounting treatment thereof in the financial statements of the Organization.

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Amendments to Financial Rules

Rule	Previous Rule (Deletion - *italic*)	Amended Rule (New wording - **bold**)	Reason for amendments
104.3	In instances where legal obligations exist at the end of a fiscal period, which result from authority to enter into commitments granted under rule 109.6(a), the commitments shall be *charged to a deferred charge account. The deferred charge shall, in turn, be transferred to the appropriate account when the necessary appropriation or funds become available. (See also rule 109.6 on commitments against the appropriations of current and future fiscal periods.)*	In instances where legal obligations exist at the end of a fiscal period, which result from the authority to enter into commitments granted under rule 109.6(a), the commitments shall be **reported in the notes to the financial statements**.	In compliance with the recommendation of the External Auditor, the Director-General has amended financial rules 104.3, 109.6(b) and 110.7(b) to conform with actual accounting and financial reporting practice.
109.6(b)	DDG/ADM shall maintain a record *in the accounts* of all such commitments, which shall constitute a first charge against the relevant appropriations as these are voted by the Conference.	Managing Director/DA shall maintain a record of all such commitments, which shall constitute a first charge against the relevant appropriations as these are voted by the Conference.	
110.7(b)	On the closing of the accounts for the fiscal period, the balance in the account for the loss or gain on exchange shall be debited *to the budget account if there is a net loss; if there is a net profit, such profit shall be* credited to miscellaneous income.	On the closing of the accounts for the fiscal period, the balance in the account for the loss or gain on exchange shall be debited **or** credited to miscellaneous income **and reported as gain/loss on exchange in the financial statements**.	

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PRIN TY

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COLLECTION

SCALE OF ASSESSMENTS FOR THE APPORTIONMENT OF THE REGULAR BUDGET EXPENSES

Scale of assessments for the fiscal period 1998-1999

Note by the Secretariat

1. In accordance with Article 15.1 of the Constitution of UNIDO, "regular budget expenditures shall be borne by the Members, as apportioned in accordance with a scale of assessments established by the Conference by a two-thirds majority of the Members present and voting, upon the recommendation of the Board adopted by a two-third majority of the Members present and voting, on the basis of a draft prepared by the Programme and Budget Committee."

2. Article 15.2 states that "the scale of assessments shall be based to the extent possible on the scale most recently employed by the United Nations. No Member shall be assessed more than 25 per cent of the regular budget of the Organization."

3. The United Nations has not completed the preparation of the scale of assessments for the calendar years 1998 to 2000, on which the UNIDO scale should be based. The United Nations General Assembly will be considering, at its fifty-second session, eight separate proposals for a scale of assessments for the period 1998 to 2000. A General Assembly decision on the scale of assessments may, therefore, not be available before the fourth quarter of 1997.

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4. In view of the developments at the United Nations, the Secretariat is not in a position to recommend a definite scale for UNIDO for the 1998-1999 biennium. The scale of assessments for contributions to the UNIDO regular budget for the 1998-1999 biennium is based temporarily, therefore, on the United Nations scale of assessments for 1995, 1996 and 1997, as authorized by the United Nations General Assembly in resolution 49/19/B.

5. The proposed scale takes into account the withdrawal of Australia from UNIDO in accordance with Article 6 of the Constitution. Australia will cease being a Member of UNIDO on 31 December 1997.

6. The scale includes Kazakhstan, which became a Member of UNIDO in June 1997. Adjustments will be made to take account of any State which joins the Organization before 31 December 1997.

7. The application of the assessment rates adopted by the General Assembly for the year 1997 to Members of UNIDO in 1998 and 1999 results in a total of 70.91 per cent, owing to differences in membership between the United Nations and UNIDO (see annex). To produce a scale of assessments that covers 100 per cent of regular budget expenditures, it is necessary to apply a mathematical coefficient to the United Nations rates for UNIDO Member States. The coefficient is not applied to the rates of United Nations Member States paying the minimum assessment of 0.01 per cent.

8. Column 3 of the annex to the present note shows the adjusted rates for the scale of assessments for the year 1998 for States that were Members of UNIDO as of 31 July 1997 (excluding Australia), by applying the coefficient 1.4153341 as explained in paragraph 7 above.

Calculation of coefficient
(Percentage)

	United Nations rate of assessment 1997	UNIDO rate of assessment 1998-1999
Total	70.91	100.0
For the 87 Member States bearing the lowest assessment (87 x 0.01 per cent)	0.87	0.87
Total for calculation of coefficient	70.04	99.13
1998-1999 coefficient 99.13/70.04	1.4153341	

ACTION REQUIRED OF THE COMMITTEE

9. The Committee may wish to propose to the Industrial Development Board that it recommend to the General Conference the establishment of a scale of assessment for the years 1998 and 1999, based temporarily on the scale currently employed by the United Nations to be adjusted as soon as the United Nations scale for the calendar years 1998 to 2000 becomes available.

Annex

SCALE OF ASSESSMENTS FOR 1998 and 1999

(Percentage)

	UNITED NATIONS		U N I D O
	Rates for Member States a/	Rates for non-Member States b/	Rates for Member States: (1) or (2)multiplied by co-efficient 1.4153341 c/
	1997		1998 and 1999
Member States	(1)	(2)	(3)
Afghanistan	0.01		0.01
Albania	0.01		0.01
Algeria	0.16		0.23
Angola	0.01		0.01
Argentina	0.48		0.68
Armenia	0.05		0.07
Austria	0.87		1.23
Azerbaijan	0.11		0.16
Bahamas	0.02		0.03
Bahrain	0.02		0.03
Bangladesh	0.01		0.01
Barbados	0.01		0.01
Belarus	0.28		0.40
Belgium	1.01		1.43
Belize	0.01		0.01
Benin	0.01		0.01
Bhutan	0.01		0.01
Bolivia	0.01		0.01
Bosnia and Herzegovina	0.01		0.01
Botswana	0.01		0.01
Brazil	1.62		2.29
Bulgaria	0.08		0.11
Burkino Faso	0.01		0.01
Burundi	0.01		0.01
Cambodia	0.01		0.01
Cameroon	0.01		0.01
Cape Verde	0.01		0.01
Central African Republic	0.01		0.01
Chad	0.01		0.01
Chile	0.08		0.11
China	0.74		1.05
Colombia	0.10		0.14
Comoros	0.01		0.01
Congo	0.01		0.01
Costa Rica	0.01		0.01
Côte d'Ivoire	0.01		0.01
Croatia	0.09		0.13
Cuba	0.05		0.07
Cyprus	0.03		0.04
Czech Republic	0.25		0.35
Democratic People's Republic of Korea	0.05		0.07

	UNITED NATIONS		UNIDO
	Rates for Member States a/	Rates for non-Member States b/	Rates for Member States: (1) or (2)multiplied by co-efficient 1.4153341 c/
	1997		1998 and 1999
Member States	(1)	(2)	(3)
Democratic Republic of the Congo	0.01		0.01
Denmark	0.72		1.02
Djibouti	0.01		0.01
Dominica	0.01		0.01
Dominican Republic	0.01		0.01
Ecuador	0.02		0.03
Egypt	0.08		0.11
El Salvador	0.01		0.01
Equatorial Guinea	0.01		0.01
Eritrea	0.01		0.01
Ethiopia	0.01		0.01
Fiji	0.01		0.01
Finland	0.62		0.88
France	6.42		9.09
Gabon	0.01		0.01
Gambia	0.01		0.01
Georgia	0.11		0.16
Germany	9.06		12.82
Ghana	0.01		0.01
Greece	0.38		0.54
Grenada	0.01		0.01
Guatemala	0.02		0.03
Guinea	0.01		0.01
Guinea-Bissau	0.01		0.01
Guyana	0.01		0.01
Haiti	0.01		0.01
Honduras	0.01		0.01
Hungary	0.14		0.20
India	0.31		0.44
Indonesia	0.14		0.20
Iran (Islamic Republic of)	0.45		0.64
Iraq	0.14		0.20
Ireland	0.21		0.30
Israel	0.27		0.38
Italy	5.25		7.43
Jamaica	0.01		0.01
Japan	15.65		22.15
Jordan	0.01		0.01
Kazakhstan	0.19		0.27
Kenya	0.01		0.01
Kuwait	0.19		0.27
Kyrgyzstan	0.03		0.04
Lao People's Democratic Republic	0.01		0.01
Lebanon	0.01		0.01
Lesotho	0.01		0.01
Liberia	0.01		0.01

	UNITED NATIONS		UNIDO
	Rates for Member States a/	Rates for non-Member States b/	Rates for Member States: (1) or (2)multiplied by co-efficient 1.4153341 c/
	1997		1998 and 1999
Member States	(1)	(2)	(3)
Libyan Arab Jamahiriya	0.20		0.28
Lithuania	0.08		0.11
Luxembourg	0.07		0.10
Madagascar	0.01		0.01
Malawi	0.01		0.01
Malaysia	0.14		0.20
Maldives	0.01		0.01
Mali	0.01		0.01
Malta	0.01		0.01
Mauritania	0.01		0.01
Mauritius	0.01		0.01
Mexico	0.79		1.12
Mongolia	0.01		0.01
Morocco	0.03		0.04
Mozambique	0.01		0.01
Myanmar	0.01		0.01
Namibia	0.01		0.01
Nepal	0.01		0.01
Netherlands	1.59		2.25
New Zealand	0.24		0.34
Nicaragua	0.01		0.01
Niger	0.01		0.01
Nigeria	0.11		0.16
Norway	0.56		0.79
Oman	0.04		0.06
Pakistan	0.06		0.08
Panama	0.01		0.01
Papua New Guinea	0.01		0.01
Paraguay	0.01		0.01
Peru	0.06		0.08
Philippines	0.06		0.08
Poland	0.33		0.47
Portugal	0.28		0.40
Qatar	0.04		0.06
Republic of Korea	0.82		1.16
Republic of Moldova	0.08		0.11
Romania	0.15		0.21
Russian Federation	4.27		6.04
Rwanda	0.01		0.01
Saint Kitts and Nevis	0.01		0.01
Saint Lucia	0.01		0.01
Saint Vincent and the Grenadines	0.01		0.01
Sao Tome and Principe	0.01		0.01
Saudi Arabia	0.71		1.00
Senegal	0.01		0.01
Seychelles	0.01		0.01

	UNITED NATIONS		U N I D O
	Rates for Member States a/	Rates for non-Member States b/	Rates for Member States: (1) or (2)multiplied by co-efficient 1.4153341 c/
	1997		1998 and 1999
Member States	(1)	(2)	(3)
Sierra Leone	0.01		0.01
Slovakia	0.08		0.11
Slovenia	0.07		0.10
Somalia	0.01		0.01
Spain	2.38		3.37
Sri Lanka	0.01		0.01
Sudan	0.01		0.01
Suriname	0.01		0.01
Swaziland	0.01		0.01
Sweden	1.23		1.74
Switzerland		1.21	1.71
Syrian Arab Republic	0.05		0.08
Tajikistan	0.02		0.03
Thailand	0.13		0.18
The former Yugoslav Republic of Macedonia	0.01		0.01
Togo	0.01		0.01
Tonga		0.01	0.01
Trinidad and Tobago	0.03		0.04
Tunisia	0.03		0.04
Turkey	0.38		0.54
Turkmenistan	0.03		0.04
Uganda	0.01		0.01
Ukraine	1.09		1.54
United Arab Emirates	0.19		0.27
United Kingdom of Great Britain and Northern Ireland	5.32		7.53
United Republic of Tanzania	0.01		0.01
Uruguay	0.04		0.06
Uzbekistan	0.13		0.18
Vanuatu	0.01		0.01
Venezuela	0.33		0.47
Viet Nam	0.01		0.01
Yemen	0.01		0.01
Yugoslavia d/	0.10		0.14
Zambia	0.01		0.01
Zimbabwe	0.01		0.01
Total	69.69	1.22	100.00

a/ Based on General Assembly resolution 49/19 B as contained in General Assembly document A/49/673/Add.1.

b/ Based on General Assembly resolution 49/19 B; column (2) of the present annex covers non-Member States of the United Nations that are Members of UNIDO.

c/ Coefficient is not applied to Member States with assessment rates of 0.01 per cent.

d/ In accordance with General Conference resolution GC/S.1/Res.1, the Federal Republic of Yugoslavia (Serbia and Montenegro) cannot continue automatically the membership of the former Socialist Federal Republic of Yugoslavia in UNIDO. Subject to any amendment to the United Nations scale of assessments approved by the United Nations General Assembly, this rate will apply to the Federal Republic of Yugoslavia (Serbia and Montenegro) should it apply for membership in UNIDO and be accepted.

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FINANCIAL SITUATION OF UNIDO

Report by the Director-General

Summary

Provides information on the status of the regular budget, separation indemnity reserve and operational budget.

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Introduction

1. The financial situation of the Organization continues to give cause for concern, as projected year-end cash balances are expected to be insufficient to cover all obligations. The pattern of payment of assessed contributions by Member States in 1997 continues to be irregular, thereby contributing to a delay in the financial implementation of the regular budget. The financial situation in the operational budget continues to improve through increasing technical cooperation delivery and support cost income and a constant level of expenditures.

I. CURRENT SITUATION

A. Regular budget

2. For the seven months ended 31 July 1997, assessed contribution income remained at levels comparable with the same period in 1996. The possibility of achieving an annual collection rate for 1997 comparable to that of 1996 (96.5 per cent) will depend on the payment patterns of some Member States. In the absence of confirmed information from Member States on the timing of payments, projected levels of cash inflows remain uncertain.

3. Notwithstanding the satisfactory collection rates anticipated for 1997, year-end cash balances will be at inadequate levels and are not expected to cover outstanding obligations or permit any replenishment of the Working Capital Fund.

4. The status of assessed contributions to the regular budget as of 31 July 1997 is shown in conference room paper PBC.13/CRP.2, annex I. As of that date, unpaid contributions for the period 1986 to 1996 amounted to $60,346,472 and AS 419,366,592 (equivalent to $34,658,411 at an exchange rate of US$ 1 = AS 12.10) for a total of $95,004,883. Unpaid contributions for the current year amounted to $3,751,615 and AS 354,905,015 (equivalent to $29,331,005) for a total equivalent of $33,082,620. Total outstanding contributions, therefore, amounted to $128,087,503.

5. As of 31 July 1997, the collection rate amounted to 72 per cent of the 1997 assessment, 60.2 per cent of which related to current year collections and 11.8 per cent to prior year collections. As of 31 July 1997, 44 Member States had made full payments of 1997 assessed contributions, as shown in table 1 below. In addition, 36 Member States had made payments of prior year assessments, which was comparable to that date in 1996.

Table 1

Payment of current year assessments
(As of 31 July 1997)

	1996	1997
Number of Member States	169	169
No payment	102	108
Partial payment	19	17
Full payment	48	44

6. The information contained in table 1 shows the reduction in the number of Member States making payments in 1997 compared to 1996. In this regard, 62 Member States currently have had their voting rights suspended since contributions due from these Members are in excess of the amounts prescribed in Article 5.2 of the Constitution. At the same time last year, 57 Member States had lost their right to vote.

7. The status of advances to the Working Capital Fund is shown in document PBC.13/CRP.2, annex II. Unpaid advances as of 31 July 1997 amounted to $51,281. The Fund presently has no cash balance and it is not expected to be replenished to its authorized level of $6,750,000 during 1997.

8. Annex III to document PBC.13/CRP.2 shows the general fund cash flow analysis for 1997 as of 31 July 1997. The cash flow analysis indicates a projected cash balance of $5.1 million by year end. This assumes relatively similar income patterns compared to 1996 and expenditures at lower-than-budgeted levels. Cash availability continues to be a crucial issue, having regard to continued uncertainties with respect to income and anticipated budgetary reductions for the 1998-1999 biennium.

B. Regular budget performance report — measures taken

9. Financial implementation of the regular budget for the period January 1996 to July 1997 was strongly influenced by the need to ensure that expenditures were kept within available cash resources.

10. The financial indicators for the regular budget and contingency plans are presented in figure 1 and table 2 below. A more detailed presentation of the financial implementation by major programme and major object of

expenditure is shown in annex IV to document PBC.13/CRP.2.

11. The full implementation by the Secretariat of the programme and budgets is dependent on the availability of cash resources throughout the biennium. In view of the uncertain financial situation, expenditure cutbacks, particularly in administrative costs, have been achieved to reduce cash outflows. However, in view of the programmatic importance of activities under the Regular Programme of Technical Cooperatioan (RPTC) and the Industrial Development Decade for Africa (IDDA), resource allocations in these two programmes have been maintained at the budgeted levels approved by Member States and full implementation is anticipated by year end.

12. The rate of monthly expenditure is expected to increase during the last quarter of the biennium, particularly in respect of RPTC and IDDA activities and for conference servicing costs related to policy-making organs sessions to be held during the remainder of the biennium.

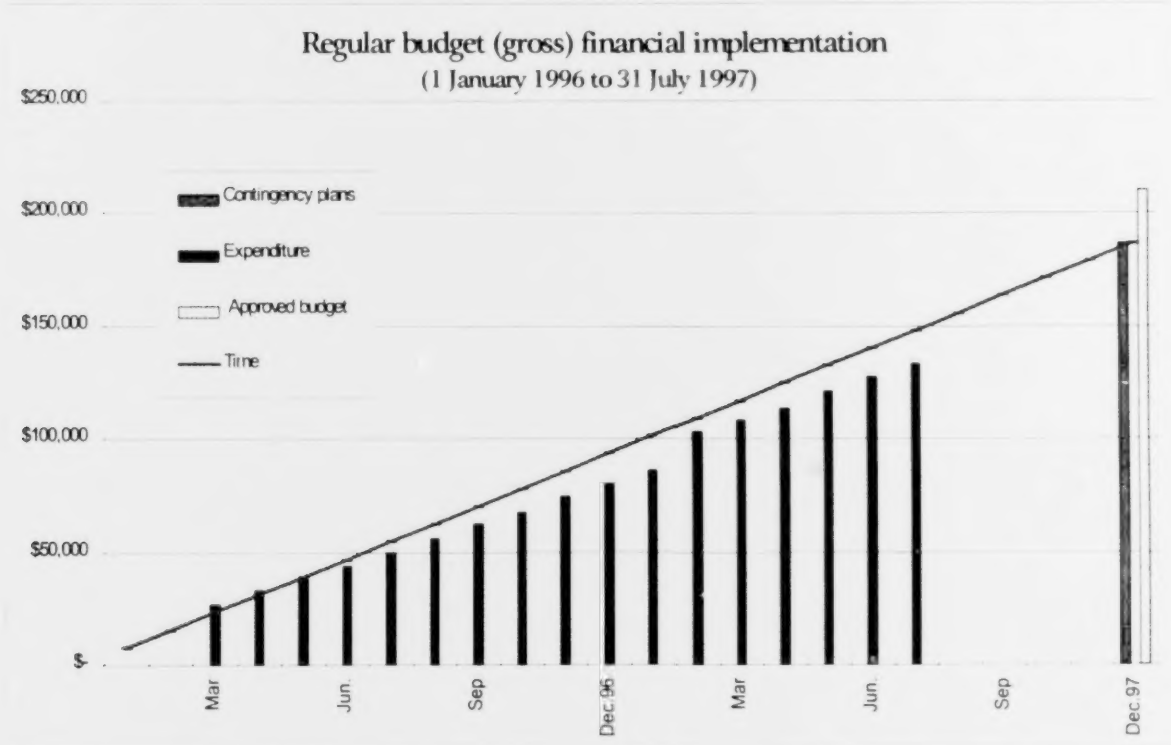
13. In addition to the savings through an increasing vacancy factor for Professional-level posts (11.9 per cent as of 31 July 1997), expenditure reductions achieved during the biennium are as detailed in paragraph 15 of document IDB.17/24.

Table 2

Regular budget financial implementation
1 January to 31 July 1997
(In thousands of US$ at US$ 1 = AS 12.90)

	Approved budget	Contingency plans
Gross		
1996-1997	210,246.6	187,103.2
Expenditure to date	133,417.8	133,417.8
Unspent budget	76,828.8	53,685.4

Figure 1



C. Operational budget

14. The improvements to the financial situation of the operational budget experienced in the first half of 1997 and reported in document IDB.17/24 have continued.

15. As a result of improving technical cooperation delivery levels and a constant monthly outflow of expenditures, the operational budget is expected to achieve a surplus of approximately $160,000 for the year. This surplus will be used to strengthen the operating reserve, which had a balance of $3,374,900, at 31 December 1996.

16. The operational budget status report showing actual and projected income and expenditures for 1997, together with the estimated reserve balance at year-end, is summarized in table 3 below.

D. Separation indemnity reserve

17. The separation indemnity reserve was established in December 1995 at a level of $17 million for the purpose of funding and accounting for the costs of the staff reduction exercise. The utilization of the reserve and the unspent balances as at 31 July 1997 are shown in table 4.

Table 3

Operational budget status report, 1997
(In thousands of US dollars)

Opening balance of reserve – 1 January 1997			3,374.9
Income			
Actual – January to July 1997	7,751.7		
Projected – August to December 1997	4,384.0		
		12,135.7	
Expenditure			
Actual – January to July 1997	7,541.9		
Projected – August to December 1997	4,433.9		
		11,975.8	
Estimated surplus/(deficit)			159.9
Estimated closing balance of reserve – 31 December 1997			3,534.8

Table 4

Separation indemnity reserve
(In thousands of US dollars)

Approved level			
(a)	Obligation against 1994-1995 budget appropriation		7,453.3
(b)	Unutilized balances of appropriation for 1992-1993		9,546.7
			17,000.0
Utilization (at 31 July 1997)			
(a)	Termination costs:		
	Disbursements	(13,898.2)	
	Obligations	(540.5)	
			(14,438.7)
(b)	1994-1995 obligations not utilized a/		(567.7)
Balance of the reserve at 31 July 1997			1,993.6

a/ Included in the budgetary surplus for 1994-1995.

18. The balance of the reserve at 31 July 1997 is approximately $2 million. In view of the anticipated budgetary reductions for the 1998-1999 biennium, the balance of the reserve should be utilized to fund a limited number of the staff separations necessary to reduce the current staffing establishment to anticipated 1998-1999 budgetary levels. As described in document PBC.13/14/5, the actual amount required to fund the separation indemnity reserve is dependent on the level of budget reductions agreed by Member States. Document PBC.13/14/5 also describes the modalities for funding (budgetary) and financing (cash) the separation indemnity reserve.

II. ACTION REQUIRED OF THE COMMITTEE

19. The Committee may wish to recommend to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the Director-General on the financial situation of UNIDO (PBC.13/13 and PBC.13/CRP.2) containing information concerning the status of assessed contributions, advances to the Working Capital Fund, cash flow estimates, regular budget performance, operational budget status and the separation indemnity reserve;

"(b) Urges those Member States that have not yet paid their assessed regular budget contributions, including advances to the Working Capital Fund, for the bienniums 1986-1987 to 1996-1997 to do so without delay;

"(c) Appeals to the Government of the United States of America to pay immediately its international financial obligations to the Organization of $61.3 million (comprising $38.3 million and AS 278.6 million)."